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SUBJECT: IAEA BUDGET TALKS DISINTEGRATE AS EURO "HAWKS"  
PLUG THEIR EARS

REF: UNVIE 320

¶1. (SBU) Summary: The European position on the IAEA budget increase has hardened. They no longer describe funding for Safeguards and Security as "priorities," but merely "desirable." The G8 process has had no affect on their zero growth position. If anything, the "budget hawks" have gained momentum while the G-77 twists in the wind, unable to believe that local European diplomats have successfully held out against U.S. efforts to secure an increase. Mission will continue to support the current budget proposal for an 8.5 percent increase and appreciates Washington's continuing efforts to find a political solution to the deadlock. We have the remainder of July to achieve an increase, thereby contributing to President Obama's non-proliferation commitments in Prague and L'Aquila. If the Board Vice Chairman's current proposal is unattainable, it would be politically sensible to accept a token increase above inflation to avoid further disunity among traditional allies while achieving a base of Regular Budget support for Nuclear Security. End Summary.

¶2. (SBU) Four hours of budget talks on July 8 ended in deadlock, with a hardening of European positions against an increase. New (and unwelcome) to the discussion was the assertion by Germany and France that the IAEA is well and adequately resourced. Germany and France also denied that anchoring Nuclear Security in the regular budget was a priority, reducing it to the level of merely "desirable," as long as it did not entail an overall budget increase. "Our only priority," they declared, "is a zero growth budget." The UK and Canada then joined the other two in asserting that the Safeguards program had more money than it needed. All four of them, in addition to Italy, Spain, Mexico, Ireland and others, emphasized zero growth. Of the OECD states, only the U.S. and Australia indicated explicit support for an increase. Japan awaited guidance pending the G-8 Summit.

¶3. (SBU) Representatives of the G-77, for their part, were in disarray. Argentine Ambassador Eugenio Curia appeared surprised to hear that so many major contributors had so little interest in anything but zero growth. His efforts to raise the issues of shielding and technical cooperation were dismissed by the Europeans, and he never, in his capacity as G-77 representative, managed to express broad support for a budget increase. A South African diplomat candidly observed that five G8 members had rejected the budget increase - a likely predictor of the final outcome.

14. (SBU) Mission has lobbied other Member States vigorously in favor of the current budget proposal on the table, which envisions an 8.5 - 9 percent nominal increase for 2010 (real increase of 5 - 6 percent plus a price adjustment). The proposal addresses top U.S. priorities in Safeguards, Nuclear Security and Safety. It also provides enough additional growth in the promotion of peaceful uses of nuclear energy to appease the G-77. As hopes for achieving this increase dwindle, Mission will continue to work toward one broad goal for the negotiation process: To shatter the glass ceiling of "zero real growth" in order to demonstrate the singular role of the IAEA in protecting our global security.

15. (SBU) Following the disastrous negotiations July 8, Romanian Vice Chair Cornel Feruta dropped the idea of holding further budget talks the following week. He did, however, investigate the possibility of holding a Special Meeting of the Board on or near July 30 to approve the budget - in whatever condition it may be. (UNVIE agrees with Feruta and the IAEA Secretariat that prolonging the acrimonious negotiations risks greater instability in Member State relations; this would threaten the U.S. agenda for other, high-profile issues we will take up in the fall.)

Comment  
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16. (SBU) The Europeans are not budging from the zero growth position and the tone of negotiations is deteriorating steadily. OECD supporters of the U.S. position - including the Netherlands, Finland and now Australia - are seen as dupes of U.S. demarches. Russia and China continue their

silence and/or absence. With the G8 summit winding down and the G-77 directionless, budget talks are on the shoals. Mission is committed to working through July for the adoption of the current budget proposal, and encourages Washington's continuing efforts to push for a political solution to the budget debate (see talking points in reftel). If there is no breakthrough in the next few days, Mission will likely advise a fallback of accepting a token, real increase along the lines of 1 - 2 percent above inflation. This will at least demonstrate that the IAEA's issues are too important to subject to the strait jacket of zero growth, while reserving as much as possible for critical safeguards investments and a modest foundation of regular budget funding for Nuclear Security.  
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